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Effect of Auditor Foreign Experience on Audit Quality: Evidence From Jordan

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ABSTRACT

This paper investigates the effects of auditors with foreign experience from advanced markets on audit quality in Jordanian. Since 2017 thousands of Jordanian professional workers returned from Saudi Arabia after Saudi's localization policy in 2016. The auditors may have extensive experience in dealing with complex transactions, exchanging knowledge, and advanced technology while working in Saudi Arabia. However, evidence is scarce on whether auditors with foreign experience from Saudi Arabia could enhance audit quality in the Jordanian audit market. Earnings management via discretionary accrual was employed to proxy audit quality. A panel data analysis fixed effect model was employed to examine the impact of auditor foreign experience on discretionary accrual using a sample of 98 Jordanian listed companies with a total observation of 686, during the Arab spring period from 2013 to 2019. The results suggested that an audit team with foreign experience reduces earnings management activities, which implies enhancing audit quality. This research raises probable implications for policymakers in Jordan to consider how to improve audit quality by benefiting from foreign audit experience.

Keywords: Audit quality; auditors experience; discretionary accruals; earnings management; foreign experience

INTRODUCTION

This study investigates the effects of auditors with foreign experience on audit quality in the Jordanian audit market. The Kingdom of Saudi Arabia's involvement in supporting conflict parties in Arab countries led to a financial crisis, resulting in the adoption of a job localization policy to reduce foreign financial transfers and unemployment rates (Al-Muqaran 2018). Therefore, additional working permit fees were imposed on foreign workers in Saudi Arabia for example[1]: Each companion pays 400 riyals per month instead of 100 riyals from the beginning of 2017 per month. This prompted companies to not renew or terminate some employment contracts. The Saudi Organization for Certified Public Accountants (SOCPA) has localized 30% of the accounting profession, especially in auditing firms, and plans to fully localize the profession in the coming years (Al-Maghames 2018).

On the other hand, data from the Department of Statistics and the Central Bank of Jordan confirm the return of Jordanian workers from Saudi Arabia. The Central Bank of Jordan reports a significant decline in remittances from Saudi Arabia to Jordan, dropping from USD 8.57 billion in 2016 and 2017 to USD 7.59 billion in 2018 and USD 6.8 billion in 2019, a total decline of 20.7%[2]. Additionally, the Jordanian Department of Statistics reports a sharp rise in unemployment rates, from 15.3% in 2016 to 18.3% in 2017 and 19.4% in 2019, a total increase of 27% over the period[3]. Thousands of Jordanian workers returning from Saudi Arabia (Shenk 2018) may contribute to these figures. The Jordanian Department of Statistics reported 450,000 Jordanians working in Saudi Arabia in 2016. While there are no new statistics from the Jordanian Department of Statistics, the Saudi Statistics Department shows 400,000 Jordanian workers in Saudi Arabia in 2019, indicating the return of 50,000 Jordanian workers to Jordan.

The Kingdom of Saudi Arabia's economy is part of the G20 and ranks 19th globally, whereas Jordan ranks 78th. In the Arab world and the Middle East, the Saudi Arabian economy holds the top position, while Jordan is ranked eleventh[4]. Table 1 shows the difference in market capitalization between major Saudi and Jordanian companies. The substantial size difference reflects the complexity of financial operations in large Saudi companies. Although Saudi Arabia is considered developing, the audit market is advanced and substantially different from Jordan's audit market. Therefore, high financial expertise and advanced financial programs are needed to handle such operations, which positively impacts the experience of workers in Saudi companies (Shenk 2018). Additionally, the diversity of nationalities in Saudi companies facilitates the exchange of experiences among employees, further enhancing their expertise. The Jordanian auditors working in Saudi Arabia would benefit from this experience.

TABLE 1. The market value top 10 companies in Saudi Arabia and Jordan

Saudi Arabia companies[5]	Market Value	Jordan Companies[6]	Market Value
ARAMCO	1,980,000,000,000	ARAB BANK	2,813,000,000
CEOWORLD	95,000,000,000	PHOSPHATE MINES	2,769,000,000
SABAK	63,000,000,000	ARAB POTASH	2,149,000,000
STC	55,823,000,000	HOUSING BANK	1,081,000,000
Al Rajhi Banking	85,400,000,000	ISLAMIC BANK	804,000,000
MAADEN	48,335,000,000	JOPETROL CO	529,000,000
ECO BAR	47,568,000,000	ORANGE	519,000,000
SULYMAN GROUP	29,000,000,000	JORDAN BANK	424,000,000
BANK AL-RYAD	23,240,000,000	CAIRO AMMAN BANK	382,000,000
ALINMA BANK	23,012,000,000	BANK AL ETIHAD	360,000,000
Market value	2,955,223,880,597		12,066,000,000

Auditors are part of the Jordanian labor force working in Saudi Arabia, and many auditors who have gained foreign experiences returned from Saudi Arabia to Jordan, after the implementation of the localization policy in 2016. However, the number of returned auditors from Saudi Arabia was not accurately documented, and thus, motivated this study to investigate the number and the impact of returned auditors from Saudi Arabia who worked in Jordanian audit firms. Instances of international talent backflow have frequently occurred over the last decade, especially in emerging markets (Giannetti et al. 2015).

Auditors with foreign experience returning from Saudi Arabia are regarded as a valuable asset to the home country. They bring with them substantial knowledge and skills gained abroad. In this paradigm, such returnees present a brain gain for the source country (Al-Htaybat 2017; Salehi et al. 2018). This international experience differs significantly from local experience, where auditors with foreign experience have worked in large economies, dealt with complex financial operations, and utilized advanced technological systems. Previous studies confirm that audit quality by foreign auditors in Saudi Arabia is significantly higher than that of auditors with only local experience in Jordan. Research by Alnawaiseh & Alnawaiseh (2015), Alsultan (2017), Baatour et al. (2017), Tayem et al. (2018), and Warrad (2018) indicate that discretionary accruals in Saudi companies range from 3% to 7%, compared to 15% to 25% in Jordanian companies. Thus, this study echoes such arguments in the auditing field by investigating how auditor with foreign experience affects the services of individual auditors in the Jordan audit firms.

Each auditor may have different beliefs, preferences, capabilities, and skills (Hou et al. 2020; Chen et al. 2017; Mao et al. 2017), as well as varying levels of experience from working with public companies. Previous studies identify experience as a crucial aspect of human capital (Albitar et al. 2020). However, few studies have focused on auditors' foreign experience (Chen et al. 2017; Mao et al. 2017), especially among those who gain experience in developed audit markets. We argue that auditors who migrate to developed or developing countries have the opportunity to amass knowledge by dealing with different information systems, exchanging experiences with their foreign partners and complex transactions (Albitar et al. 2020; Chen et al. 2017; Mao et al. 2017). The auditors' professional experience gained from abroad (more efficient audit market) enables them to overcome institutional barriers and enhance audit quality. This exposure helps auditors understand operational intricacies and evaluate accounting-related transactions and activities. Auditors often consult peers within the same office when facing challenges in their work (Sonu et al. 2019). Therefore, international experience equips auditors to plan, select, and implement more appropriate audit procedures to detect material misstatements.

Thus, we may expect that auditors with foreign working experience gained from a superior working environment can lead to differentiate and enhance audit quality. The accumulation of auditors' experiences and skills, acquired from navigating large economies, advanced technological systems, and intricate financial operations in developed countries, can significantly improve their capacity to deliver high-quality audits. Despite this, however, there has been limited exploration of the impact of auditor foreign experience on audit quality. Hou et al. (2020), Chen (2017), and Mao et al. (2017) studied how audit partners' experience in international Big 4 firms in China affects audit quality. There is a need to investigate if auditors with foreign experience, specifically from the Saudi audit market, impact audit quality in Jordanian firms. Additionally, previous studies show a difference in audit quality between Big 4 and non-Big 4 firms due to varying auditor experience levels (Che et al. 2020; Downar et al. 2021; Gaver et al. 2019; Hossain et al. 2023; Ocak et al. 2023). Jordanian auditors returning from Saudi Arabia have worked in both types of firms, suggesting foreign experience affects audit quality differently in each. Further investigation is needed to understand this effect on Jordanian companies.

This study uses 686 observations of non-financial public companies listed in the Amman stock exchange from 2013 to 2019[7]. Discretionary accruals, calculated using the modified Jones model, represent audit quality. We find that auditors with foreign experience reduce earnings management in Jordanian public companies. Both AFE (Big 4) and AFE (non-Big 4) auditors improve audit quality and reduce earnings management. This suggests that professional auditors returning from advanced audit markets benefit Jordanian Big 4 and non-Big 4 firms in enhancing audit quality.

Our study makes several important contributions to the literature. First, it supports the Resource-Based Theory, which posits that possessing strategic resources allows organizations to gain a competitive advantage. Second, while previous studies have explored various types of experience (e.g., audit tenure, education, industry, Big 4) as factors influencing audit quality, our study introduces foreign audit experience as a new perspective in explaining the variation in audit quality at the audit firm and audit team levels, which gained from a superior working environment. The involvement of auditors with foreign experience in the audit team is found crucial for delivering a good audit quality.

Additionally, our study offers valuable insights for regulators. It guides audit firms on leveraging foreign experience to enhance audit quality and competitiveness. It also urges accounting regulators to issue rules requiring disclosures about the audit team's background and experience, as this is vital for ensuring audit quality. Currently, audit firms do not provide such disclosures. Our study serves as a pioneering guide for Big 4 and non-Big 4 firms to use foreign experience to improve competition in the Jordanian audit market.

This paper is organized as follows. The second section presents a review of the literature, theoretical framework, and hypotheses development. The next section discusses the methodology applied to the research, whereas the fourth section four points out the empirical findings. The final section presents a conclusion.

LITERATURE REVIEW, THEORETICAL FRAMEWORK, AND HYPOTHESES DEVELOPMENT

JORDANIAN AUDIT MARKET BACKGROUND

During the British Mandate in 1922, British corporations utilized the Jordanian population for bookkeeping, marking the start of accounting in Jordan (Adhikari & Tondkar 1992). With the establishment of the State of Israel in 1948, businesses and audit offices relocated from Palestine to Jordan. As a result, the Jordanian Companies Law, including the Law on Practicing the Auditing Profession 10/1961, was enacted (Abu-Nassar & Rutherford 1996; Al-akra et al. 2009). In the 1970s, due to the civil war in Lebanon, Jordan became the financial hub of the Middle East, attracting many companies. This led the Central Bank of Jordan to establish the Amman Financial Market in 1978 and issue Companies Law 31/1976 (Nasser & Nusseibeh 2008). Additionally, seven banks and brokers were licensed to serve expatriates (Naser & Nuseibeh 2008). During the Gulf War (1980-1989), Jordan faced economic challenges, including 20% unemployment and over \$11 billion in foreign debt (Swaidan & Nica 2002). Consequently, the Jordanian government enacted Companies Law No. 23 (1985) to establish the Jordanian Association of Certified Public Accountants (JACPA) (Al-Farah et al. 2015).

The Iraq-Kuwait war in 1990 brought 330,000 Jordanians returning home, raising unemployment to 30%. To address economic issues, the IMF urged Jordan to implement a rigorous economic program (Saaydah 2012). In 1997, JACPA adopted the International Financial Reporting Standards (IFRS) (Swaidan & Nica 2002). The US invasion of Iraq in 2003 led to an influx of 450,000 Iraqi refugees into Jordan, benefiting its economy. The Iraq War and financial crises from Enron and WorldCom raised global concerns about audit quality. In response, Jordan enacted Law 73/2003 to ensure reliable financial statements (Petra & Loukatos 2008; Al-Farah et al. 2015; Saaydah 2012). This marked the last significant political change affecting Jordan's economy before the Arab Spring. Studies by Freiha et al. (2015), Naser and Nuseibeh (2008) and Saaydah (2012) indicate that political changes in the Arab region impacted Jordan's accounting and auditing profession. Salehi (2009) confirms that political changes in Iran affected auditing quality. Recently, the Arab Spring caused significant political changes with major economic repercussions in the Arab region, which also affected Jordan.

The Arab Spring, which affected Tunisia, Egypt, Libya, Yemen, Jordan, Bahrain, and Syria, began non-violently but eventually turned violent. In 2011, Jordan experienced non-violent protests. King Abdullah II responded with constitutional, political, and economic reforms, which calmed the demonstrations. However, Jordan felt the Arab Spring's effects indirectly through Saudi government policies that impacted neighboring countries, including Jordan. These policies led to reduced Gulf investments and aid in Jordan, harming the Jordanian economy by increasing public debt, raising unemployment rates, and reducing the number of Jordanian companies[8,9].

The Gulf Cooperation Council (GCC) remained largely unaffected by the Arab Spring, with no significant protests. However, Saudi Arabia and the UAE provided support to certain factions in Arab conflicts, while Qatar supported different groups, leading to a Gulf boycott on Qatar and a financial crisis for Gulf states. In response, Saudi Arabia implemented job localization policies to address financial challenges. Jordanian workers, numbering 900,000 primarily in the GCC (400,000 in Saudi Arabia, 150,000 in the UAE, and 49,000 in Qatar), were impacted by these localization policies (Department of Statistics 2017). These policies included increased expatriate fees, non-renewal and cancellation of contracts, and full localization of professions in Saudi Arabia, such as in the medical sector, information technology, trade, industry, tourism, and the ongoing localization of the accounting profession (Al-Maghames 2018). Currently, there are 167,000 foreign accountants in Saudi Arabia, with full localization expected by 2030 and over 30% of the audit profession already localized.

Shenk (2018) asserts the mass return of Jordanian families from the Gulf. However, there is no specific data on the return of professional Jordanian labor from the Gulf. We argue that this return poses a serious challenge to Jordan's economy, already struggling with unemployment. Conversely, the Jordan Strategy Forum (2018) suggests that, with prudent policies, the return of Jordanian labour can benefit the economy. Notably, most returning GCC workers are highly skilled, particularly in the financial sector, including accountants and auditors. The returning Jordanian auditors from Saudi Arabia bring valuable intellectual resources and foreign experience. These auditors offer insights into diverse economic activities, technical systems, complex transactions, and international knowledge-sharing, which will lead to enhancing the Jordanian audit market with their expertise.

Additionally, the Arab Spring has affected Jordanian-Saudi relations, which were historically strong and politically aligned. Differing political stances during the Arab Spring led to reduced Saudi aid and investment in Jordan. This reduction contributed to a financial crisis, with the number of Jordanian companies declining from 218 in 2015 to 184 in 2019[10]. However, the Jordan Strategy Forum (2018) argues that the returned of Jordanian labor can provide a new source of investment, serving as an alternative to Saudi investments. During market fluctuations, investors seek high-quality financial data and are willing to pay higher audit fees for long-term engagements with experienced professionals. This strategy leverages the expertise of returning auditors to attract investments and address economic challenges. Despite this potential, there is limited evidence proving the impact of returned auditors on audit quality among Jordanian audit firms.

AUDIT QUALITY

Audit quality depends on auditor competence and independence, which involves the ability to detect breaches of accounting standards and the motivation to report them (Ahn et al. 2020). Previous studies (e.g., Chang et al. 2023; Gaver & Utke 2018) have examined audit quality at the firm or city-office level across various markets, industries, and Big 4 firms. Recognizing the impact of audit experience on quality, recent research has focused on the individual characteristics of audit team members. DeFond and Francis (2005) suggest shifting audit quality analysis from the firm or office level to the individual auditor level. Similarly, Downar et al. (2020) call for more research on the relationship between individual characteristics and audit reporting quality.

While extending the analysis of audit quality from the office level to the individual auditor level, few studies have explored the roles of individual auditors. Despite exceptions include research on auditor tenure, years of experience, and industry specialization (Gaver & Utke 2018; Hoopes et al. 2018; Lopez & Jay 2019), prior research has largely overlooked the effects of individual auditor heterogeneity. Singh et al. (2019) examined how economic dependence affects audit quality at the individual auditor level using Jordanian data, showing that client importance impacts auditor independence, which could be influenced by investor protection strength. Mao et al. (2017) used data from China to study the impact of individual auditors on audit outcomes, finding significant effects on audit quality. However, the impact of the recent backflow of international talent on audit quality remains unexplored, especially regarding individual auditor experience gained in more competitive audit markets.

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

The relationship between auditor foreign experience and audit quality can be explained by Resource Dependency Theory (RDT). Salehi et al. (2019) explain that political changes increase the degree of investment risk. In the Jordanian market, the decline in the stock performance in the Jordanian market led to investors' fears about their investments. Investors demand high-quality audited financial statements to protect their investments, which increases competition among auditing firms to maintain clients. This competition is especially crucial after the decline in the number of companies in the Jordanian market. Audit firms may seek to hire experienced auditors returning from Saudi Arabia to enhance their audit quality and competitiveness. This argument is aligned with RDT, which suggests that actors lacking essential resources will form relationships with others to acquire and obtain external resources (Khieng & Dahles 2015). The appointment of experienced returned auditors from Saudi Arabia is a crucial external resource to help audit firms enhance their audit quality and strive for competition in Jordan’s audit market (Salehi et al. 2019). The returned auditors from Saudi Arabia possess a high level of experience that enhances their ability and skills to provide high-quality auditing and reliable advisory including non-audit services.

Prior research indicates that returning emigrants can benefit emerging and developing nations through "brain gain," as they bring back additional skills and knowledge. Giannetti et al. (2015) show that emigration can permanently elevate a source economy's average productivity. The skilled migration can lead to a "brain bank," where knowledge accumulated abroad is transferred to domestic investors. Beine et al. (2008) found a positive correlation between skilled migration prospects and gross human capital formation in 127 countries. In developing countries, audit quality may be influenced by institutional weaknesses (Ke et al. 2015). Auditors with foreign experience may have varying levels of experience with publicly listed companies in different audit markets. Auditors who have worked in countries with strong institutional frameworks are likely to be more independent and perform better in monitoring companies. Skilled professionals who have migrated can amass valuable knowledge (Ke et al. 2015). This foreign experience can enhance auditors' services and help them overcome institutional barriers, ultimately improving audit quality.

Thus, experience is an important dimension of human capital (Albitar et al. 2020), especially for auditors with foreign experience. Auditors with experience in countries with strong institutional environments tend to be highly independent and demonstrate better performance in monitoring companies (Ke et al. 2015). Moreover, auditors who work in developed countries. Moreover, auditors who work in developed countries or advanced markets receive professional audit training and adhere to high auditing standards and strict procedures, which can enhance their professional abilities (Chen et al. 2017; Mao et al. 2017; Hou et al. 2020). An auditor with foreign experience can also provide insights into operational complexities and offer informed judgments on related accounting transactions and activities.

According to resource dependence theory, auditors with foreign experience represent a new and valuable asset for Jordanian audit firms aiming to enhance their audit quality. This attribute is crucial for attracting and retaining clients, particularly following the decline in the number of companies in the Jordanian market. Auditors with experience in competitive markets can leverage their expertise to detect significant issues in financial statements. Moreover, to uphold their reputation, these auditors may collaborate with colleagues when encountering auditing challenges (Ocak et al. 2023). Their international experience enhances their audit capabilities, enabling them to navigate complex financial operations and advanced technology, thereby identifying inaccuracies in financial statements and overcoming institutional barriers.

We argue that audit firms employing auditors with foreign experience gain competitive advantages in the audit market through enhanced audit quality, potentially fostering client retention. A larger client base diminishes the relative significance of individual clients, positively affecting auditor independence and audit quality (Hossain et al. 2023). However, evidence supporting these impacts, especially in the Jordanian audit market, remains limited. Therefore, we propose the following hypothesis:

H_1 Auditors with foreign experience positively influence audit quality.

Previous studies generally suggest that Big 4 audit firms offer better audit quality compared to non-Big 4 firms (Downar et al. 2021; Hossain et al. 2023; Sonu et al. 2019). However, several accounting scandals involving Big 4 firms challenge this perception (Hossain et al. 2023). Additionally, Chen et al. (2017) and Mao et al. (2017) found that the transition of Chinese auditors from Big 4 to local firms did not impact audit quality significantly. In the context of Jordanian listed companies, we argue that employing auditors with foreign experience, whether in Big 4 or non-Big 4 firms, can enhance audit quality. These auditors are motivated to uphold their reputation and demonstrate the benefits of their international experience to their new employers (Khieng & Dahles 2015). They can also leverage their experience with large economies and complex financial operations by sharing insights with audit team members. Thus, we predict that the audit team that consists of returned auditors with foreign experience from Saudi Arabia, regardless of firm size, will improve audit quality. However, we acknowledge that evidence supporting this argument in the Jordanian audit market is limited, and thus, propose the following hypothesis:

H_2 Audit firms with foreign experience, either Big 4 or non-Big 4, positively influence audit quality.

METHODOLOGY

SAMPLE AND DATA

The study period covers seven years, extending from the impact of the Arab Spring on Jordan in 2013 until the beginning of the COVID-19 pandemic (2013-2019). The sample focuses on these public companies for two reasons: first, regional instability and Jordan's relative stability led to significant economic changes and a decrease in the number of listed companies, increasing competition among audit firms; second, a new type of expertise emerged in Jordan as professional auditors returned due to localization policies in Gulf countries, especially Saudi Arabia. This study collects data by using two methods, primary and secondary data collection.

The primary data collection involved visiting the audit firms' offices to determine the number of auditors with foreign experience, i.e., returned from Saudi Arabia. Before visiting the audit firms, information about the auditing firms was gathered from the financial reports of Jordanian companies. This aimed to identify the firms that audited non-financial Jordanian companies from 2013 to 2019 by tracking the audit firms' names and the audit partner who signed the auditor report. Table 2 shows the distribution of audit firms that audited non-financial Jordanian companies from 2013 to 2019. The visit to nine audit firms is crucial for determining the number of returned auditors from Saudi Arabia appointed by the Jordanian audit firms and involved in the audit team, which audits Jordan's listed companies. Then, the audit team was matched with listed companies based on the identified audit firm's partner who signed the audit report.

TABLE 2. The audit firms that participated in audit work in Jordan from 2013 to 2019[11]

Panel A

Years	2013	2014	2015	2016	2017	2018	2019
Audit firm	30	29	25	25	27	26	22

Panel B

Name of audit firms	Number of times audit from 2013 to 2019	Percentage
Deloitte	56	8.1%
EY	148	21.5%
PWH	16	2.3%
KPMJ	32	4.6%
Big 4	252	36.7%
Abbasi Grope International	48	7%
Arab Professional Grope	64	9.3%
Arabs Professionals	87	12.6%
Talal Abu-Ghazaleh	81	11.8%
Ghosheh & Co	81	11.8%
Non-Big 4	361	52.6%
Total (9 audit firms)	613	89.3%

The secondary data collection focuses on gathering information about audit quality and other independent variables, including control variables. The financial and non-financial data were gathered by using a content analysis approach from the annual reports of companies listed on the Amman Stock Exchange. These annual reports were downloaded from the Amman Stock Exchange announcement webpage (https://www.exchange.jo). Out of the 237 companies, 121 financial companies were excluded from the scope of the study due to the difference in the characteristics of these companies. In addition, eighteen companies were also excluded from the sample due to incomplete data from (2013-2019) on the selected parameters. As a result, the final sample consisted of 98 non-financial companies. For the seven-year sample period from 2013 to 2019, there were 686-year observations. The sample selection procedures for determining the final sample are illustrated in Table 3 below.

TABLE 3. Sample selection procedure

Total population: companies listed on the Amman stock exchange website (July 2020)	237
Excludes:	
Financial institutional sector	(121)
Companies with incomplete data	(18)
Total sample	98
Total company-year observations (98*7)	686

RESEARCH DESIGN

We test our hypothesis, i.e., the impact of auditors with foreign experience on audit quality by using the below:

Model 1:

$$[DA_{it}] = \beta_0 + \beta_1 AFE_{it} + \beta_2 CS_{it} + \beta_3 LEV_{it} + \beta_4 LOSS_{it} + \beta_5 OCF_{it} + \beta_6 Big4_{it} + \beta_7 FGROWTH_{it} + \beta_8 SGROWTH_{it} + \beta_9 \sum INDUSTRY_{it} + \beta_{10} \sum YEAR_{it} + \varepsilon_{it}$$

Model 2:

$$[DA_{it}] = \beta_0 + \beta_1 AFE(Big\ 4)_{it} + \beta_2 AFE(Non\text{-}Big\ 4)_{it+}\ \beta_3 CS_{it} + \beta_4 LEV_{it} + \beta_5 LOSS_{it} + \beta_6 OCF_{it} + \beta_7 Big4_{it} + \beta_8 FGROWTH_{it} + \beta_9 SGROWTH_{it} + \beta_{10} \sum INDUSTRY_{it} + \beta_{11} \sum YEAR_{it} + \varepsilon_{it}$$

Where, DA is a discretionary accrual. We use discretionary accruals as a proxy to represent audit quality, where a high audit quality would be represented by a lower magnitude of discretionary accruals. Accruals are likely to capture evidence of earnings management because they reflect managers' accounting estimates and accounting choices. The assumption is that opportunistic earnings manipulation compromises the quality of the information and that the high magnitude of discretionary accruals indicates that the auditor may not fulfil their mission of preserving the neutrality of the statements. The DA is measured by using the Dechow et al. (1995) model that identifies the practice of earnings management through discretionary accruals. Dechow et al. (1995) provide evidence that the modified Jones model is the most powerful to detect earnings management among alternative models to measure unexpected accruals[12].

AFE is an auditor with foreign experience. According to Hou et al. (2020), Hou et al. (2023), Chen et al. (2017) and Mao et al. (2017), the differentiation in audit quality between audit firms depends on the individual characteristics of the auditor. Mao et al. (2017) also demonstrated that the auditor's international experience reflects positively on audit quality. Likewise, we expect auditors with foreign experience from Gulf countries to have a positive impact on the quality of the audit. Thus, a company is quoted at 1 if there is at least one auditor in the audit team who has foreign experience and 0 otherwise (Hossain et al. 2023).

Moreover, Asmoro et al. (2022) and Chang et al. (2023) indicate that the Big4 audit firms provide better audit quality than local audit firms (non-Big 4). Therefore, we classify the audit firms with foreign experience auditors belonging to Big 4 or non-Big 4 audit firms by using separate dummy variables. The first dummy variable refers to auditors with foreign experience belong the Big 4, which the observation is coded as 1 for the company audited by the Big 4 audit team with foreign experience auditors, otherwise, 0, includes a company that was audited by audit firms with no auditors with foreign experience. The second dummy refers to auditors with foreign experience belonging to non-Big 4 audit firms, coded as 1 if the company is audited by the non-Big 4 audit team with foreign experience auditors, and otherwise 0.

In addition, past studies suggested that financial characteristics and ultimate ownership of a client may affect his/her financial reporting quality in previous studies (Asmoro et al. 2022; Chang et al. 2023; Hossain et al. 2023). Therefore, we include several variables that reflect client characteristics, namely, client size (CS), firm's leverage (LEV), the presence of loss (LOSS), operating cash flow (LnOCF), firm growth (FGROWTH), and sales growth (SGROWTH). CS is measured as the natural logarithm of total assets (Asmoro et al. 2022), LEV ratio is measured by total debt divided by total assets (Rahmat et al., 2021; Waad et al., 2021), loss (LOSS), coded as 1 if a firm reports a loss, and 0 otherwise (Che et al. 2020), operating cash flow (OCF) is measured by operating cash flows divided by the average of the total assets (Chang et al. 2023). Big 4 represents an audit quality, scaled as 1 if a client company is audited by the Big 4 audit firm and 0 otherwise (Chang et al. 2023), FGROWTH is calculated as the market-to-book value (Rahmat et al., 2021; Waad et al., 2021), and SGROWTH is measured as a change in sales between the previous year and fiscal year divided by the previous year's sales (Chang et al. 2023).

INDUSTRY is a vector that represents three sectors (real estate, industry, and service). Each sector has its special characteristics, and the impact of economic fluctuations may be different from one sector to another. Each sector is treated as a dummy, and coded as 1 for that sector, i.e., if the vector refers to the real estate sector, the real estate company is coded as 1 and otherwise 0. Meanwhile, YEAR is also a vector that represents even years from 2013 to 2019. YEAR is also measured as a dummy variable, where the observation is in the year 2020, coded as 1 and otherwise 0. The same approach applies to the rest of the years.

RESULTS

DESCRIPTIVE ANALYSIS

Table 4 presents descriptive analysis results for 686 firm-year observations. Discretionary accruals [DA] are used as a proxy for audit quality, focusing on the impact of independence variables on earnings management via [DA]. The absolute magnitude of DA is more crucial than its direction (earnings increasing or earnings decreasing). The average is 0.175, ranging from 0.152 to 0.255, indicating earnings management among Jordanian companies, consistent with Taliyang et al. (2014).

TABLE 4. Descriptive analysis

Panel A: Continuous variables					
Variable	observation	Mean	Std. Dev.	Min	Max
[DA]	686	0.17	0.13	0.15	0.25
(DA)	0.12	0.13	-0.02	0.19	1.00
LnCS	686	17.15	1.45	13.71	20.9
LEV	686	0.31	0.23	0.00	1.56

LOSS	686	0.34	0.47	0.00	1.00
LnCFO	686	19.02	1.45	0.00	19.27
F-GROWTH	686	1.12	0.78	0.13	3.21
S-GROWTH	686	-0.04	0.33	-1.00	0.73

Panel B: Dummy variables

	observation	frequency	percentage
AFE	686	153	22.3%
AFE(Big4)	686	76	11%
AFE(non-Big4)	686	77	11.2%
LOSS	686	263	34.5%
Big4	686	252	36.7%

[DA] is absolute of discretionary accruals, (DA) is discretionary accruals with income increasing or decreasing, lnCS is a logarithm of client size, LEV is the company leverage, LOSS indicates if a firm reports a loss, and 0 otherwise, lnCFO indicates a logarithm of Cash Flow Operating, scaled by total assets at the beginning of the year Big4 indicates the type of auditor who audits the company, F-GROWTH indicates book market–to–book value, and S-GROWTH indicates Change in sales between the previous year and fiscal year/ previous year, AFE is the audit foreign experience, AFE(Big4) is the audit foreign experience in Big-4, AFE(non-Big4) is the audit foreign experience in non-big-4.

PEARSON CORRELATION ANALYSIS

Table 5 depicts the Pearson correlation analysis to determine the association between independent variables (Hsieh et al. 2020). The correlation matrix illustrates that none of the coefficient scores exceeds the benchmark at the level of 0.8, with the highest correlation is 0.524 between lnCS and lnCFO. The results indicate that all the independent variables are free from multicollinearity issues. The results from the variance inflation factor (VIF) analysis show the VIF value for all the independent variables is less than 10 confirming the model did not severely suffer from any multicollinearity problems.

TABLE 5. Pearson correlations

Variables	[DA]	AFE	AFE (Big4)	AFE (non-Big 4)	lnCI	lnCS	LEV	LOSS	lnCFO	Big4	F-GROWTH	S-GROWTH	VIF	Tolerance
[DA]	1													
AFE	-0.16*	1											1.60	0.63
AFE(Big4)	-0.12	0.25	1										1.52	0.65
AFE(non-Big4)	-0.11	0.26	0.31*	1									1.57	0.64
lnCI	0.08	0.15*	0.14*	0.10*	1								1.50	0.67
lnCS	0.11*	0.08	0.05	0.07	0.51*	1							2.37	0.42
LEV	0.06	0.08	0.06	0.09	0.14*	0.39*	1						1.49	0.67
LOSS	-0.18*	0.01	0.03	0.02	-0.22*	-0.29*	0.06	1					1.30	0.77
lnCFO	0.09*	0.04	0.04	0.03	0.34*	0.52*	0.15*	-0.23*	1				1.53	0.65
Big4	0.04	0.14*	0.13*	0.12*	0.34*	0.47*	0.21*	-0.12*	0.32*	1			1.60	0.63
F-GROWTH	0.07	-0.09	0.08	0.06	0.10*	0.14*	0.16*	-0.17*	0.32*	0.22*	1		1.29	0.77
S-GROWTH	0.34*	0.03	0.02	0.04	0.08	0.13*	0.04	-0.25*	0.09	0.07	0.06	1	1.11	0.90

Note: *, **, *** represent significance at the level of $p < 0.10$, 0.05, and 0.01 respectively, all those variables are defined in Table 4.

REGRESSION RESULTS

This study used panel data analysis to test the hypothesis. We conducted the Breusch and Pagan Lagrangian multiplier test and the Hausman test to choose the appropriate model: pooled, random, or fixed effect. The results confirmed that the fixed effect model is the best for regression in models 1 and 2. Table 6 shows the regression analysis results. The R^2 values are approximately 85% and 80%, respectively, with the F value significant at $p < 0.01$.

Table 6, model 1, shows a significant negative correlation between auditor foreign experience (AFE) and the absolute magnitude of discretionary accruals [DA] at a 1% significance level. The coefficient is -0.293, with a t-value of -3.35, indicating a significant association at $p < 0.05$. This implies that auditors with foreign experience reduce earnings manipulation activities in Jordanian companies, improving their ability to identify errors. Auditors with experience abroad, especially in more advanced audit working environments, enhance audit quality in Jordanian firms. Thus, investing in auditors with foreign experience could improve overall audit quality. This conclusion supports resource-based theory and aligns with studies by Hou et al. (2020), Chen et al. (2017), Liu (2017), and Mao et al. (2017), confirming the positive impact of foreign experience on audit quality.

TABLE 6. The fixed effect regression results

	[DA] Model 1		[DA] Model 2	
	Coefficient	t-value	Coefficient	t-value
AFE	-0.29	-3.35**		
AFE(Big 4)			0.27	-3.51**
AFE(non-Big 4)			0.23	-2.97**
lnCS	0.04	0.11	0.04	0.12
LEV	0.94	1.79*	0.87	1.72*
LOSS	0.01	0.04	0.01	0.05
lnCFO	-1.47	-0.93	-1.45	-0.96
Big 4	0.522	1.33	0.54	1.31
F-GROWTH	0.03	0.26	0.04	0.22
S-GROWTH	-0.95	-3.45***	-0.93	-3.47***
Constant	26.97	0.89	26.21	0.91
YEAR	fixed effect		fixed effect	
INDUSTRY	fixed effect		fixed effect	
R-squared	85%		83%	
F-test	0.501***		0.52***	
Number of observations (n)	686		686	

Note: *, **, *** represent a significance at the level of $p < 0.10$, 0.05, and 0.01 respectively. [DA] is the absolute magnitude of discretionary accruals; all those variables are defined in Table 4.

Table 6, model 2, shows a significant negative correlation between AFE(Big 4) and AFE(non-Big 4) and absolute discretionary accruals (DA), with coefficients of -0.27 (t-value -3.51) and -0.23 (t-value -2.97) at the 5% level, respectively. These results support hypotheses 2a and 2b and align with Chen et al. (2017) and Mao et al. (2017). The findings indicate that foreign experience in Big 4 audit teams has a stronger impact on improving audit quality than in non-Big 4 teams, highlighting the disparity in audit quality between Big 4 and non-Big 4 firms. Table 6 also shows only two control variables, i.e., leverage (LEV) and the firm's sales growth have an impact on discretionary accrual [DA]. The findings are aligned with Simamora and Hendarjatno (2019). Meanwhile, the other control variables are found insignificant.

ADDITIONAL AND ROBUSTNESS ANALYSIS

THE INCENTIVE OF DISCRETIONARY ACCRUALS

Previous studies have discussed earnings management incentives either to increase (positive DAC) or decrease (negative DAC) earnings (El-Guindy & Basuony 2018 and Gaver & Utke 2018). This study extends the analysis to Jordanian companies. The mean value of the dependent variable (DA) is 0.12, with a minimum of -0.02 and a maximum of 0.19 (results not tabulated). This mean value indicates that Jordanian companies engage in earnings management through positive discretionary accruals, favoring income-increasing incentives over income-decreasing ones.

TABLE 7. The regression analysis of discretionary accruals with incentives

	Model 1		Model 2	
(DA)	Coefficient	t-value	Coefficient	t-value
AFE	-0.15	-3.3***		
AFE(Big 4)			-0.27	-3.51***
AFE(non-Big 4)			-0.23	-2.97***
LnCS	0.14	2.36**	0.04	0.12
LEV	0.97	3.33***	0.87	1.72*
LOSS	0.08	3.25***	0.01	0.05
LnCFO	0.86	2.82***	-1.45	-0.96
Big4	-0.72	-4.43***	0.54	1.31
F-GROWTH	-0.02	-1.42*	-0.04	-0.22
S-GROWTH	-1.11	-3.13***	-0.93	-3.47***
Constant	21.80	3.57***	26.21	0.91
YEAR	fixed effect		fixed effect	
INDUSTRY	fixed effect		fixed effect	
R^2	87.60%		83%	
Number of observations	686		686	

Note: *, **, *** represent a significance at the level of $p < 0.10$, 0.05, and 0.01 respectively. (DA) is discretionary accrual with incentive directions, and all those variables are defined in Table 4.

Table 7 shows a significant negative association between auditor foreign experience (AFE) and discretionary accruals (DA) with a coefficient of -0.15 (t-value -3.3) at $p < 0.01$ in model 1. In model 2, there is a significant negative association between AFE(Big 4) and AFE(non-Big 4) with coefficients of -0.27 (t-value -3.51) and -0.23 (t-value -2.97) at $p < 0.01$. These results are consistent with the main results and indicate that both models are robust enough to confirm auditors with foreign experience improve audit quality in Jordanian firms by curbing discretionary accrual activities.

CORPORATE GOVERNANCE

Gave and Utke (2019) highlight the importance of corporate governance on audit quality. However, since Jordanian companies began disclosing corporate governance in financial reports only in 2017, these attributes were excluded from the main analysis. An additional analysis was conducted to control the potential impact of corporate governance using data from 2017, 2018, and 2019, totaling 294 observations. This analysis included corporate governance attributes such as the size of the board of directors (B-size), CEO duality (Duality), board independence (B-indep), the number of board meetings (B-meet), audit committee size (AC-size), the number of audit committee meetings (ACmeet), and the experience and financial literacy of the audit committee (ACexpert).

TABLE 8. Regression analysis results

	Model 1		Model 2	
[DA]	Coef.	t-value	Coef.	t-value
AFE	-0.32	-4.51***		
AFE(Big 4)			-0.36	-4.6***
AFE(non-Big 4)			-0.37	-4.23***
LnCS	0.05	2.09**	0.05	2.1**
LEV	0.97	4.92***	0.97	4.7***
LOSS	0.18	4.42***	0.18	4.3***
LnCFO	-0.78	-1.77*	-0.78	-1.72*
Big4	0.83	3.42***	0.83	3.37***
F-GROWTH	0.04	1.89*	0.04	1.81*
S-GROWTH	1.02	4.28***	1.01	4.26***
B-indep	-0.43	-1.82*	-0.43	-1.85*
ACmeet	-0.01	-0.68	-0.01	-0.66
ACexpert	-0.03	-1.92*	-0.03	-1.93*
Constant	16.03	1.1	15.04	1.1
YEAR	Fixed effect		Fixed effect	
INDUSTRY	Fixed effect		Fixed effect	
R-squared	84.4%		83.6%	
Number of observations	294		294	

Note: *, **, *** represent a significance at the level of $p < 0.10$, 0.05, and 0.01 respectively. B-size indicates board size, Duality indicates the duplication between the positions of the chairman of the board of directors and the Officer manager, (B-indep) indicates the independence of the board of directors, (B-meet) indicates the number of board directors' meetings, (AC-size) indicates the size of the audit committee, (AC-expert) indicates the experience of Audit Committee. Other variables are defined in Table 4.

The Breusch and Pagan Lagrangian multiplier test and Hausman test results in Models 1 and 2 indicate that the fixed-effect model (FEM) is the most appropriate regression. Table 10 shows that corporate governance elements have no significant effect on audit quality in either model. This may be due to the short implementation period of corporate governance in Jordanian companies. After controlling corporate governance, Model 1 shows that auditors with foreign experience significantly reduce discretionary accruals, indicating that hiring such auditors enhances audit quality. The coefficient is -0.32 (t-value -4.54) at $p < 0.01$. Model 2 shows that both AFE(Big 4) and AFE(non-Big 4) significantly reduce discretionary accruals, suggesting that both types of firms can improve audit quality by investing in auditors with foreign experience. The results are consistent with the main findings and studies by Rajeevan and Ajward (2020). In general, we conclude that the model was robust after controlling the corporate governance attributes. However, the coefficient and t-value of the testing variables do not change substantially, including adjusted R^2. It indicates that the inclusion of current corporate governance attributes may not substantially affect the audit quality. Since the corporate governance practices among Jordanian listed companies were recently implemented, i.e., around three years (2017-2019), at a beginning stage. We believe that the current corporate governance practices are a transition period for adopting the practices. Jordan's listed companies may require ample time to practice effective corporate governance.

CONCLUSION

Audit quality is crucial for the accuracy and credibility of financial statements, as it depends on the auditor's ability to identify errors and significant misstatements. Engaging experienced auditors increases the likelihood of detecting discrepancies. This study examines the relationship between auditors with foreign experience, particularly from competitive audit markets like Saudi Arabia, and audit quality. Data was collected from the Amman Stock Exchange (secondary data) and audit firms (primary data), focusing on auditors with foreign experience. The results show a significant negative relationship between auditors with foreign experience and the absolute magnitude of discretionary accruals, indicating a positive relationship with audit quality. Additionally, there is a significant negative relationship between AFE(Big 4), AFE(non-Big 4), and absolute discretionary accruals, suggesting a positive association between auditors with foreign experience and audit quality. These findings support our hypotheses and indicate that auditors with foreign experience, whether in Big 4 or non-Big 4 firms, positively impact the quality of auditing in Jordan.

The results of this research support Giannetti et al. (2015). However, Giannetti et al. discussed talent in general without focusing on specific types of experience. This study opens the door for other fields, such as engineering, education, nursing, and technology, to explore the impact of foreign experience on their professions. Previous studies on the connection between auditor specialization and audit quality have mainly focused on industry specialization, tenure, education, and Big 4 affiliation (e.g., Chen et al. 2017; Gave & Utke 2019; Mao et al. 2017; Yen et al. 2018; Zuhroh & Erlina 2020). This study expands on this by adding the dimension of experience and skills gained from working in advanced economies, technological systems, and complex financial operations. By doing so, it fills a gap in literature by exploring auditor skill and audit quality from the perspective of foreign expertise gained in more developed audit markets.

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This research supports the assertion that audit quality is enhanced through experience, particularly at the audit team level, as demonstrated by Garcia-Blandon and Argiles-Bosch (2018). This information can help managers and officers make informed decisions about disclosing the audit team's experience and recognizing its significant impact on audit quality. Audit firms can improve competitiveness through auditors' foreign experience, especially in emerging markets with strong competition. The study provides strong evidence that audit quality cannot be judged by the name of the auditing firm alone; instead, the individual characteristics of auditors should be considered. Additionally, a robust association between auditors' foreign experience (AFE) and audit quality was identified, prompting further exploration into how individual auditor attributes may influence audit quality.

This investigation explores the influence of auditors' characteristics, allowing future studies to examine other types of experience not covered here. It is important to note the study's limitations, as the results are confined to companies listed on the Amman Stock Exchange. Thus, generalizations to other companies should be made with caution.

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NOTES

1. https://www.aljazeera.net/news/2017/12/17/
2. https://www.cbj.gov.jo/
3. https://dosweb.dos.gov.jo/ar/
4. https://www.hrsd.gov.sa/media-center/news/290720242
5. https://www.saudiexchange.sa

6. https://www.ase.com.jo/ar
7. https://www.ase.com.jo/ar
8. Source: http://www.cbj.gov.jo 2019
9. https://www.ase.com.jo/ar
10. https://www.ase.com.jo/ar
11. https://www.ase.com.jo/ar
12. The model is estimated as follows:

$$TACC\_t=\Delta CA\_t-\Delta Cash -\Delta CL\_t+\Delta DCL\_t-DEP\_t \quad \ldots\ldots\ldots\ldots\ldots\ldots (Eq.1)$$

TACC_t = *total accruals, calculated as reported earnings minus cash flow from operations;*
ΔCA_t = *average total assets;*
ΔCash = *change in cash and cash equivalents in year t_1;*
ΔCL_t = *change in current liabilities in the year t_1;*
ΔDCL_t = *change on short term debt included in current liabilities in the year t_1;*
DEP_t = *depreciation and amortization expense in the year t_1;*

$$(TACC\_t)/(A\_t\text{-}1\ ) =a\_1\ \ 1/(A\_t\text{-}1)+a\_2\ \ ((\Delta REV\_t\text{-}\Delta REC\_t\ ))/(A\_t\text{-}1)\ \ +a\_3\ \ (PPE\_t)/(A\_t\text{-}1)+\varepsilon\_t \ldots\ldots (Eq.2)$$

TACC_t = *Total accruals in year t_1 divided by total assets in the year t_1;*
ΔREV_t = *revenues in the year t_1 fewer revenues in the year t_(1-1);*
ΔREC_t = *delta receivable in year t_1 less delta receivable in year t_(1-1);*
PPE_t = *gross property plant and equipment in the year t_1;*

$$DACC\_t=TACC\_t\ \text{-}\ NDACC\_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (Eq.\ 3)$$

Which:
DACC_t = *absolute value of estimated total discretionary accruals;*
TACC_t = *Total accruals in year t_1;*
NDACC_t = *Non-discretionary accruals;*

The non-discretionary accruals can be calculated with the next formula:

$$(NDACC\_t)/(A\_t\text{-}1\ ) \ = a\hat{}\_1\ \ 1/(A\_t\text{-}1) +a\hat{}\_(2)\ ((\Delta REV\_t\text{-}\Delta REC\_t\ ))/(A\_t\text{-}1) + a\hat{}\_(3)\ \ PPE/(A\_t\text{-}1)+\varepsilon\_t\ldots.. \ (Eq.\ 4)$$

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